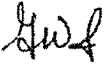


# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

DATE: July 29, 2014  
AT (OFFICE): NHPUC

FROM: Grant W. Siwinski   
Utility Analyst III

SUBJECT: DE 13-063, Granite State Electric Company d/b/a Liberty Utilities  
Distribution Service Rate Case — Request for Permanent Rates

TO: Commissioners  
Debra A. Howland, Executive Director

On February 27, 2013, Liberty filed with the Commission its notice of intent to file rate schedules to seek an increase in its annual distribution revenues. On March 29, 2013, Liberty filed its proposed rate schedules seeking an increase of \$14,168,940 in annual distribution revenues, which, according to the Company, would result in an average overall increase of 18 percent in residential customers' bills. In addition, the Company filed for a Step Increase of \$1,250,467 based on additional capital investments of \$9,177,000 to be in service as of December 31, 2013. The resulting rates of \$0.00134/kWh from the Step Increase would go into effect concurrent with the permanent increase on a per kWh basis.

In Staff's testimony, it recommended a Step Increase of \$1,288,682 in annual revenues associated with Liberty's capital investments of \$9,177,000 after making adjustments for certain costs including vehicle costs, property taxes, the insurance percentage, depreciation rates, and cost of capital. With these corrections, Staff supported an annual rate increase of \$0.00139/kWh.

Under the Settlement Agreement approved by the Commission in Order No. 25,638, Liberty was permitted to recover a Step Increase of \$1,115,102 in annual revenues based on the Company's capital investments of \$7,462,500 as of December 31, 2013. The amount of the rate increase was \$0.00121/kWh and was subject to the completion of a final audit by Staff. The rate increase, however, took effect concurrent with the permanent increase on and after April 1, 2014.

On July 8, 2014, the Audit Staff issued its Final Audit Report (Report) on Liberty's Step Increase. According to the Report, the anticipated capital investments based on the order were \$7,462,500, but Liberty could only verify \$5,947,984. Consequently, Audit Staff requested Liberty reconcile the \$1,514,516 difference.

And, the Company provided the following information:

*"The approximate \$1.5M difference (shortfall) between the settlement valuation and actuals can be attributable to the following:*

- *The Michael Avenue Substation project was constructed by National Grid under the Transition Services Agreement (TSA). National Grid was also installing transmission substation equipment at the site. There was significant leveraging of construction resources as part of the overall Liberty Utility-National Grid project resulting in a lower than estimated overall cost to Liberty.*
- *The Michael Avenue Gateway (cable and overhead conductors) project encountered favorable installation conditions and scheduling which resulted in a lower than estimated cost for the project. During construction there were no contingencies encountered resulting in lower than budgeted project costs.*
- *The three substation regulator projects (6L2, 11L1, and 1L4) were constructed by National Grid under the TSA. In the aggregate, the actuals were notably lower than the estimates. We attribute this to National Grid's local based workforce and experience with the sites and construction.*
- *The Enfield Project was constructed in two phases. The first phase was completed and available for back up reliability service prior to December 31, 2013 while the second phase was completed in May of 2014. The \$1,200,000 step increase settlement amount was the anticipated cost of the first phase of the project. The \$2,269,033 actual amount reported included accelerated material purchases and some work for the second phase of the project. The cost of phase I of the project exceeded estimates due to additional rock drilling for poles, relocation of a portion of an existing line and an aggressive winter construction schedule. Since it is not possible to determine with precision the actual costs associated with phase I of the project we propose that we limit our recovery in this step adjustment to the \$1,200,000 included in the settlement agreement.” (The Report at 3.)*

After reviewing the above information and 100% of the capital investments in detail, Audit Staff requested Liberty's general ledger in order to tie the plant additions from the filing in DE 13-063 to the general ledger. Based on a detailed spreadsheet and journal entries, Liberty could only verify \$677,827 of capital investments being posted out of its Construction Work in Progress (CWIP) account to the appropriate FERC Plant Asset accounts. However, Liberty claimed that the remaining capital investments except for Enfield (\$2,269,033) were used, useful, and in service in June 2013. Enfield was not declared in service by Liberty's Engineering division until May 2014. In the meantime, the remainder of the \$5,270,157 (\$5,947,984 - \$677,827) in capital investments remained in CWIP, which continued to accrue AFUDC until December 2013, even though Liberty claimed the investments were in service. Audit Staff cannot and did not verify Liberty's claim that the remaining \$5,270,157 of capital investments were in service by December 2013.

The capital investments in the Step Increase are \$6,784,673 (\$7,462,500 - \$677,827) less than the capital investments reported in the Settlement Agreement and Commission order. The approximate revenues associated with the \$677,827 capital investments are \$101,500, which is \$1,013,500 less than the revenues currently being collected in rates. Staff recommends that the Commission order Liberty to reduce its current rate for the Step Increase from \$0.00121/kWh to \$0.00011/kWh and refund the revenues over-collected since April 1, 2014.

Also, as part of the new rates in Commission Order No. 25,638, the Company requested authority and received approval subject to review by the Audit Staff to recover up to \$390,000 in rate case expenses incurred in preparation of and during the rate case. The Company proposed and the Commission approved the recovery of the rate case expenses over a two year period, through a rate case surcharge. The Audit Staff completed its review of these costs on April 29, 2014. Based on its review, the Audit Staff verified rate case expenses of \$318,944. Therefore, Staff recommends that the Commission allow Liberty to recover only \$318,944 through the rate case surcharge that took effect April 1, 2014.

Cc: Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

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Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov  
al-azad.m.iqbal@puc.nh.gov  
amanda.noonan@puc.nh.gov  
Christina.Martin@oca.nh.gov  
ddeschenes@haslaw.com  
eric.m.lopez@Hitchcock.org  
george.mccluskey@puc.nh.gov  
ggilman@hinckleyallen.com  
grant.siwinski@puc.nh.gov  
james.brennan@oca.nh.gov  
jarnold@hinckleyallen.com  
jim.cunningham@puc.nh.gov  
leszek.stachow@puc.nh.gov  
sarah.knowlton@libertyutilities.com  
Stephen.Hall@libertyutilities.com  
Stephen.R.Eckberg@oca.nh.gov  
susan.chamberlin@oca.nh.gov  
suzanne.amidon@puc.nh.gov  
tom.frantz@puc.nh.gov  
william.sherry@libertyutilities.com

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**FILING INSTRUCTIONS:**

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:
- DEBRA A HOWLAND  
EXECUTIVE DIRECTOR  
NHPUC  
21 S. FRUIT ST, SUITE 10  
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.